

CITY OF RICHWOOD
RICHWOOD, TEXAS

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
SEPTEMBER 30, 2008**

**KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566**

CITY OF RICHWOOD

Richwood, Texas

Annual Financial Report For the Year Ended September 30, 2008

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FINANCIAL SECTION

KENNEMER, MASTERS & LUNSFORD

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Independent Auditor's Report

January 16, 2009

To The Honorable Mayor and
Members of City Council
City of Richwood
Richwood, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richwood, Texas (the "City") as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Richwood, Texas as of September 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The Management's Discussion and Analysis on pages 9 through 16 and the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund and the Texas Municipal Retirement System Schedule of Funding Progress - Last Three Years on pages 56 through 57 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Richwood's basic financial statements. The individual fund schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kennemer, Masters & Hunsford, LLC

CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2008

As management of the City of Richwood, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2008.

Financial Highlights

- The assets of the City of Richwood exceeded its liabilities at the close of the most recent fiscal year by \$ 7,757,447 (net assets). Of this amount, \$ 1,164,950 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- The City's total net assets increased by \$ 1,410,688.
- As of the close of the current fiscal year, the City of Richwood's governmental funds reported combined ending fund balances of \$ 962,347. 95.85% of this total amount, \$ 922,450 (unreserved fund balance) is available for use within the City's fund designation.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 922,450 or 63.28% of the total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Richwood's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes).

CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2008

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general government and administration, public safety, public works, and parks and recreation. The *business-type activities* of the City include Water and Sewer and Sanitation operations.

The government-wide financial statements can be found on pages 18 through 21 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three (3) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Debt Service, and Capital Projects funds. The General and Debt Service funds are considered to be major funds. Data from the Capital Projects fund, a non-major fund, is reported in a separate column as it is the only other governmental fund of the City. The governmental fund financial statements can be found on pages 22 through 25 of this report.

CITY OF RICHWOOD, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2008

- **Proprietary Funds.** The City maintains one category of *proprietary funds*-Enterprise Funds. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its water and sewer, and sanitation operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 26 through 30 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 through 54 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund, and information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 56 and 57 of this report.

The individual fund statements and schedules, and other schedules are presented following the required supplementary information. These individual statements and schedules and other schedules can be found on pages 60 through 61 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of government's financial position. In the case of the City of Richwood, assets exceeded liabilities by \$ 7,757,447 as of September 30, 2008.

The largest portion of the City's net assets \$ 6,135,864 (79.10%) reflects its investments in capital assets (e.g., land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide service to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2008

CITY OF RICHWOOD'S STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities		Totals	
	September 30 (Restated),		September 30,		September 30 (Restated),	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 1,081,118	\$ 940,043	\$ 790,828	\$ 716,531	\$ 1,871,946	\$ 1,656,574
Capital assets	<u>2,809,701</u>	<u>1,886,602</u>	<u>4,777,163</u>	<u>4,507,635</u>	<u>7,586,864</u>	<u>6,394,237</u>
Total assets	<u>3,890,819</u>	<u>2,826,645</u>	<u>5,567,991</u>	<u>5,224,166</u>	<u>9,458,810</u>	<u>8,050,811</u>
Other liabilities	84,616	45,316	194,747	176,634	279,363	221,950
Long-term liabilities	<u>817,000</u>	<u>847,102</u>	<u>605,000</u>	<u>635,000</u>	<u>1,422,000</u>	<u>1,482,102</u>
Total liabilities	<u>901,616</u>	<u>892,418</u>	<u>799,747</u>	<u>811,634</u>	<u>1,701,363</u>	<u>1,704,052</u>
Net Assets:						
Invest in capital assets, net of related debt	1,992,701	1,039,500	4,143,163	3,841,635	6,135,864	4,881,135
Restricted	41,539	36,926	415,094	440,445	456,633	477,371
Unrestricted	<u>954,963</u>	<u>857,801</u>	<u>209,987</u>	<u>130,452</u>	<u>1,164,950</u>	<u>988,253</u>
Total net assets	<u>\$ 2,989,203</u>	<u>\$ 1,934,227</u>	<u>\$ 4,768,244</u>	<u>\$ 4,412,532</u>	<u>\$ 7,757,447</u>	<u>\$ 6,346,759</u>

An additional portion of the City's net assets of \$ 456,633 (5.89%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$ 1,164,950 (15.01%) may be used to meet the government's ongoing obligations to citizens and creditors.

As of September 30, 2008, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2008. Governmental activities increased the City of Richwood's net assets by \$ 1,054,976. Business-type activities increased the City's net assets by \$ 355,712.

CITY OF RICHWOOD, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2008

CITY OF RICHWOOD'S STATEMENTS OF ACTIVITY

	Governmental Activities		Business-type Activities		Totals	
	September 30 (Restated),		September 30,		September 30 (Restated),	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for services	\$ 153,072	\$ 125,111	\$ 738,520	\$ 723,230	\$ 891,592	\$ 848,341
Operating grants and contributions	184,468	4,189			184,468	4,189
Capital grants and contributions	876,989		410,785	117,791	1,287,774	117,791
General Revenues:						
Taxes:						
Property taxes	838,725	769,716			838,725	769,716
Sales taxes	278,613	273,296			278,613	273,296
Franchise fees	142,310	133,011			142,310	133,011
Investment earnings	22,741	46,385	10,919	23,719	33,660	70,104
Miscellaneous	26,214	48,337			26,214	48,337
Total revenues	<u>2,523,132</u>	<u>1,400,045</u>	<u>1,160,224</u>	<u>864,740</u>	<u>3,683,356</u>	<u>2,264,785</u>
Expenses:						
General administration	226,444	214,773			226,444	214,773
Judicial	10,217	10,493			10,217	10,493
Police department	603,588	555,416			603,588	555,416
Fire department	96,375	105,523			96,375	105,253
City maintenance	216,772	213,933			216,772	213,933
Streets and drainage	108,280	89,688			108,280	89,688
Parks and recreation	71,928	90,880			71,928	90,880
Hurricane Ike	85,477				85,477	
Interest on long-term debt	49,075	51,754			49,075	51,754
Water, sewer & sanitation			804,512	875,972	804,512	875,972
Total expenses	<u>1,468,156</u>	<u>1,332,190</u>	<u>804,512</u>	<u>875,972</u>	<u>2,272,668</u>	<u>2,208,162</u>
Increases (decreases) in net assets before transfers	1,054,976	67,855	355,712	(11,232)	1,410,688	56,623
Transfers	<u>-0-</u>	<u>22,500</u>	<u>-0-</u>	<u>(22,500)</u>	<u>-0-</u>	<u>-0-</u>
Increase (decrease) in net assets	1,054,976	90,355	355,712	(33,732)	1,410,688	56,623
Net assets – Beginning (Restated)	<u>1,934,227</u>	<u>1,843,872</u>	<u>4,412,532</u>	<u>4,446,264</u>	<u>6,346,759</u>	<u>6,290,136</u>
Net assets – ending	<u>\$ 2,989,203</u>	<u>\$ 1,934,227</u>	<u>\$ 4,768,244</u>	<u>\$ 4,412,532</u>	<u>\$ 7,757,447</u>	<u>\$ 6,346,759</u>

CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2008

Financial Analysis of the City's Funds

As noted earlier, the City of Richwood uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Richwood's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Richwood's governmental funds reported combined ending fund balances of \$ 962,347. 95.85% of this total amount (\$ 922,450) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) encumbrances (\$ 7,935), 2) for debt service (\$ 22,461), and 3) for court security and technology (\$ 9,501).

The General Fund balance increased by \$ 100,018; and the Debt Service Fund balance increased by \$ 1,195. The Capital Projects fund balance decreased by \$ 6,160.

Proprietary funds. As mentioned earlier, the City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at September 30, 2008 amounted to \$ 209,987. Total net assets increased \$ 355,712.

General Fund Budgetary Highlights. The City's overall budgeted revenue and expenditures increased during the year by 4.7% or \$ 65,654 and 0.7% or \$ 10,000, respectively; and was the result of revised projections. Revenues and expenditures exceeded budgetary estimates with the City's increase in fund balance exceeding budgeted amounts by \$ 48,364.

Capital Assets

The City of Richwood's investment in capital assets for its governmental and business-type activities as of September 30, 2008, amounts to \$ 7,586,864 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture, equipment and vehicles, and infrastructure. During the year ended September 30, 2008, the City received contributed capital in the amount of \$ 1,287,774, in which \$ 1,277,084 was from Audubon Development and Raymond Burroughs, and \$ 10,690 was from other governments. Of the total amount, \$ 876, 989 is reported within governmental activities and \$ 410,785 is reported within the business-type activities as water system improvements.

CITY OF RICHWOOD, TEXAS
Management's Discussion and Analysis
For the Year Ended September 30, 2008

**Capital Assets at Year-end
Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2008	2007	2008	2007	2008	2007
Land	\$ 266,940	\$ 266,940	\$ 122,580	\$ 122,580	\$ 389,520	\$ 389,520
Buildings	147,276	161,251	65,500	68,775	212,776	230,026
Furniture, equipment & vehicles	300,135	235,252	40,044	36,988	340,179	272,240
Infrastructure	<u>2,095,350</u>	<u>1,223,159</u>	<u>4,549,039</u>	<u>4,276,292</u>	<u>6,644,389</u>	<u>5,499,451</u>
Total assets	<u>\$ 2,809,701</u>	<u>\$ 1,886,602</u>	<u>\$ 4,777,163</u>	<u>\$ 4,504,635</u>	<u>\$ 7,586,864</u>	<u>\$ 6,391,237</u>

Additional information on the City of Richwood's capital assets can be found in Note 7 on pages 45 through 46 of this report.

Debt Administration

At the end of the current fiscal year, the City of Richwood had a total certificates of obligation payable and revenue bonds payable of \$ 1,449,000. Of this amount, \$ 1,270,000 is comprised of bonded debt backed by the full faith and credit of the City. These bonds will be retired with revenues from property and sales taxes. The remaining \$ 179,000 represents bonds secured solely by water and sewer revenues. Further, the City did not have obligations under capital lease.

**Outstanding Debt at Year End
Bonds Payable**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2008	2007	2008	2007	2008	2007
Certificates of						
Obligation bonds	\$ 815,000	\$ 845,000	\$ 455,000	\$ 470,000	\$ 1,270,000	\$ 1,315,000
Revenue bonds			<u>179,000</u>	<u>193,000</u>	<u>179,000</u>	<u>193,000</u>
Total assets	<u>\$ 815,000</u>	<u>\$ 845,026</u>	<u>\$ 634,000</u>	<u>\$ 663,000</u>	<u>\$ 1,449,000</u>	<u>\$ 1,508,000</u>

CITY OF RICHWOOD, TEXAS

*Management's Discussion and Analysis
For the Year Ended September 30, 2008*

All of the outstanding Bonds of the City payable from its limited taxes are insured and are, therefore, rated "Aaa" by Moody's Investors Service Inc ("Moody's"), and "AAA" by Standard & Poor's ("S&P"). The underlying rating on all of such Bonds and other obligations payable from such source are "A1" by Moody's and "A+" by S&P.

Additional information on the City of Richwood's long term debt can be found in Note 8 on pages 47 through 49 of this report.

Economic Factors and Next Year's Budgets and Rates

In the 2008-2009 Budget, General fund revenues are budgeted to increase by 10.0% from 2007-2008 budget year due to increases in general property taxes, municipal court, and franchise fees.

Certified assessed valuations increased 7.8% over the preceding year. Property taxes will increase approximately .20 percent.

No new programs or major projects are proposed.

The Enterprise Fund's 2008-2009 budgeted expenditures are to decrease by 4.0% than the preceding year's budget. Water and Sewer rates for the 2008-2009 budget year remain the same.

Request for Information

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Secretary, 215 Halbert, Richwood, Texas, 77531, or call (979) 265-2082.

BASIC FINANCIAL STATEMENTS

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF NET ASSETS

September 30, 2008

	Governmental Activities	Business- Type Activities	Total
Assets:			
Cash and temporary investments	\$ 558,191	\$ 174,457	\$ 732,648
Receivables (Net)			
Property taxes	21,357		21,357
Accounts		118,815	118,815
Sales taxes	47,128		47,128
Accrued interest	309	61	370
Other	43,219		43,219
Interfund accounts	11,954	(11,954)	-0-
Due from other governments	182,543	10,690	193,233
Investments	216,417	11,747	228,164
Restricted Assets:			
Temporarily Restricted:			
Cash and temporary investments		333,253	333,253
Accrued interest		535	535
Bond issuance costs – current		1,027	1,027
Investments		135,767	135,767
Bond issuance costs (net)		16,430	16,430
Capital Assets (Net of Accumulated Depreciation):			
Land	266,940	122,580	389,520
Buildings	147,276	65,500	212,776
Furniture, equipment and vehicles	300,135	40,044	340,179
Infrastructure	<u>2,095,350</u>	<u>4,549,039</u>	<u>6,644,389</u>
Total assets	<u>3,890,819</u>	<u>5,567,991</u>	<u>9,458,810</u>

(continued)

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF NET ASSETS - Continued

September 30, 2008

	Governmental Activities	Business- Type Activities	Total
Liabilities:			
Accounts payable	\$ 72,543	\$ 93,828	\$ 166,371
Unearned revenue	12,073		12,073
Liabilities Payable from Restricted Assets:			
Accrued interest payable		7,708	7,708
Revenue bonds payable – current		34,000	34,000
Customer deposits		64,211	64,211
Noncurrent Liabilities:			
Due within one year	32,000		32,000
Due in more than one year	<u>785,000</u>	<u>600,000</u>	<u>1,385,000</u>
Total liabilities	<u>901,616</u>	<u>799,747</u>	<u>1,701,363</u>
Net Assets:			
Invested in capital assets, net of related debt	1,992,701	4,143,163	6,135,864
Restricted For:			
Encumbrances	7,935		7,935
Debt service	24,103	404,219	428,322
Capital projects		10,875	10,875
Court security and technology	9,501		9,501
Unrestricted	<u>954,963</u>	<u>209,987</u>	<u>1,164,950</u>
Total net assets	<u>\$ 2,989,203</u>	<u>\$ 4,768,244</u>	<u>\$ 7,757,447</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General administration	\$ 226,444	\$ 52,437	\$	\$
Judicial	10,217			
Police department	603,588	87,854	4,415	
Fire department	96,375			
City maintenance	216,772			
Streets and drainage	108,280			876,989
Parks and recreation	71,928	12,781		
Hurricane Ike	85,477		180,053	
Interest on long-term debt	49,075			
Total governmental activities	<u>1,468,156</u>	<u>153,072</u>	<u>184,468</u>	<u>876,989</u>
Business-type Activities:				
Water, sewer and sanitation	<u>804,512</u>	<u>738,520</u>		<u>410,785</u>
Total business-type activities	<u>804,512</u>	<u>738,520</u>	<u>-0-</u>	<u>410,785</u>
Total	<u>\$ 2,272,668</u>	<u>\$ 891,592</u>	<u>\$ 184,468</u>	<u>\$ 1,287,774</u>
General Revenue:				
Taxes:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Sales taxes				
Franchise fees				
Investment earnings				
Miscellaneous				
Total general revenues and transfers				
Change in net assets				
Net assets – beginning (restated)				
Net assets – ending				

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business- Type Activities	Total
\$(174,007)	\$	\$(174,007)
(10,217)		(10,217)
(511,319)		(511,319)
(96,375)		(96,375)
(216,772)		(216,772)
768,709		768,709
(59,147)		(59,147)
94,576		94,576
(49,075)		(49,075)
(253,627)	-0-	(253,627)
	344,793	344,793
-0-	344,793	344,793
(253,627)	344,793	91,166
759,765		759,765
78,960		78,960
278,613		278,613
142,310		142,310
22,741	10,919	33,660
26,214		26,214
1,308,603	10,919	1,319,552
1,054,976	355,712	1,410,688
1,934,227	4,412,532	6,346,759
\$ 2,989,203	\$ 4,768,244	\$ 7,757,447

CITY OF RICHWOOD

Richwood, Texas

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2008

	General Fund	Debt Service	Capital Projects	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 548,782	\$ 9,409	\$	\$ 558,191
Investments	204,021	12,396		216,417
Receivables:				
Property taxes (net)	19,276	2,081		21,357
Sales taxes	47,128			47,128
Other governments	182,303	240		182,543
Accrued interest	289	20		309
Other	25,587	334		25,921
Due from other funds	12,331			12,331
 Total assets	<u>\$ 1,039,717</u>	<u>\$ 24,480</u>	<u>\$ -0-</u>	<u>\$ 1,064,197</u>
 <u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts payable and accrued expenditures	\$ 72,543	\$	\$	\$ 72,543
Due to other funds		377		377
Deferred revenue	27,288	1,642		28,930
 Total liabilities	<u>99,831</u>	<u>2,019</u>	<u>-0-</u>	<u>101,850</u>
 <u>Fund Balance:</u>				
Reserved For:				
Encumbrances	7,935			7,935
Debt service		22,461		22,461
Court security and technology	9,501			9,501
Unreserved:				
Designated For:				
Insurance	18,834			18,834
Capital improvement	91,987			91,987
Equipment replacement	127,686			127,686
Undesignated	683,943			683,943
 Total fund balances	<u>939,886</u>	<u>22,461</u>	<u>-0-</u>	<u>962,347</u>
 Total liabilities and fund balances	<u>\$ 1,039,717</u>	<u>\$ 24,480</u>	<u>\$ -0-</u>	<u>\$ 1,064,197</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET ASSETS

September 30, 2008

Total fund balances – governmental funds balance sheet	\$ 962,347
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 5,668,522 in assets less \$ 2,858,821 in accumulated depreciation.	2,809,701
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 15,215 and \$ 1,642, respectively.	16,857
Municipal court receivables unavailable to pay for current period expenditures are not recognized in the governmental funds. Municipal court receivables of \$ 116,761, net of allowance of \$ 99,463.	17,298
Payables for bond principal is not reported in the funds.	(815,000)
Payables for bond interest are not reported in the funds.	(2,000)
Net assets of governmental activities – statement of net assets.	<u>\$ 2,989,203</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2008

	General Fund	Debt Service	Capital Projects	Total Governmental Funds
Revenues:				
Taxes:				
Property taxes	\$ 766,139	\$ 79,741	\$	\$ 845,880
Sales taxes	278,613			278,613
Franchise fees	142,310			142,310
Revenue producing facilities	12,781			12,781
Fines and fees	73,976			73,976
Licenses and permits	52,437			52,437
Investment income	20,903	631	1,207	22,741
Intergovernmental	184,468			184,468
Miscellaneous	26,214			26,214
Total revenues	<u>1,557,841</u>	<u>80,372</u>	<u>1,207</u>	<u>1,639,420</u>
Expenditures:				
Current:				
General administration	218,421			218,421
Judicial	10,217			10,217
Police department	630,227			630,227
Fire department	76,629			76,629
City maintenance	206,637			206,637
Streets and drainage	9,793			9,793
Parks and recreation	46,441			46,441
Hurricane Ike expenditures	122,567			122,567
Capital outlay	136,891		7,367	144,258
Debt Service:				
Principal retirement		85,654		85,654
Interest and agent fees		49,177		49,177
Total expenditures	<u>1,457,823</u>	<u>134,831</u>	<u>7,367</u>	<u>1,600,021</u>
Excess of revenues over (under) expenditures	100,018	(54,459)	(6,160)	39,399
Other Financing Sources (Uses):				
Proceeds of bank note		55,654		55,654
Net changes in fund balances	100,018	1,195	(6,160)	95,053
Fund balances - beginning (restated)	839,868	21,266	6,160	867,294
Fund balances - ending	<u>\$ 939,886</u>	<u>\$ 22,461</u>	<u>\$ -0-</u>	<u>\$ 962,347</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2008

Net change in fund balances – total governmental funds	\$ 95,053
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. The amount by which depreciation \$ 191,631 exceeded capital outlays \$ 237,740 in the current period.	46,109
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund and the debt service fund increased by \$ 6,374 and \$ 781, respectively.	(7,155)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net assets. The amount was for general obligation bonded debt in the amount of \$ 30,000.	30,000
Repayment of short-term debt principal and proceeds from short-term notes are the expenditure and revenue in the governmental funds, but should not be reported in the governmental activities statements. Both short-term debt principal and proceeds from the short note are \$ 55,654.	-0-
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt.	102
Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Municipal court receivables, net of allowance, decreased by \$ 13,878.	13,878
Capital contributions in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Capital contributions amounted to \$ 876,989.	<u>876,989</u>
Change in net assets of governmental activities	\$ <u>1,054,976</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF NET ASSETS - PROPRIETARY FUND - ENTERPRISE FUND

September 30, 2008

	<u>Enterprise Fund</u>
<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 174,457
Investments	11,747
Utility accounts receivable (less allowance for uncollectibles)	118,815
Due from other governments	10,690
Accrued interest receivable	<u>61</u>
	<u>315,770</u>
 Current Restricted Assets:	
Cash and cash equivalents	333,253
Investments	135,767
Accrued interest receivable	535
Bond issuance costs (current)	<u>1,027</u>
 Total current restricted assets	<u>470,582</u>
 Total current assets	<u>786,352</u>
 Noncurrent Assets:	
Bond issuance costs (net of current and accumulated amortization of \$ 1,243) - restricted	<u>16,430</u>
 Capital Assets:	
Property, plant and equipment	7,874,259
Less accumulated depreciation	<u>(3,097,096)</u>
 Total capital assets (net of accumulated depreciation)	<u>4,777,163</u>
 Total noncurrent assets	<u>4,793,593</u>
 Total assets	<u>5,579,945</u>

(continued)

	<u>Enterprise Fund</u>
<u>Liabilities and Net Assets</u>	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 93,828
Due to other funds	<u>11,954</u>
	<u>105,782</u>
Current Liabilities Payable from Restricted Assets:	
Accrued interest payable	7,708
Revenue bonds payable – current	34,000
Customer deposits	<u>64,211</u>
Total current liabilities payable from restricted assets	<u>105,919</u>
Total current liabilities	211,701
Noncurrent Liabilities:	
Revenue bonds payable - net	<u>600,000</u>
Total liabilities	<u>811,701</u>
Net Assets:	
Invested in capital assets, net of related debt	4,143,163
Restricted For:	
Revenue bond retirement	404,219
Capital construction	10,875
Unrestricted	<u>209,987</u>
Total net assets	<u>\$ 4,768,244</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - ENTERPRISE FUND

For the Year Ended September 30, 2008

	Enterprise Fund
Operating Revenues:	
Water service	\$ 365,520
Sewer fees	323,349
Garbage fees	9,322
Delinquent charges	20,460
Taps and reconnect fees	14,675
Miscellaneous	<u>5,194</u>
Total operating revenues	<u>738,520</u>
Operating Expenses:	
Personnel costs	151,148
Sewer treatment plant operations	154,081
Water costs – BWA	135,896
Utilities and telephone	47,110
Repairs and maintenance	46,544
Supplies	30,368
Miscellaneous	<u>15,177</u>
Operating expenses before depreciation	580,324
Depreciation	<u>190,171</u>
Total operating expenses	<u>770,495</u>
Operating income (loss)	(31,975)
Non-Operating Revenues (Expenses):	
Investment income	10,919
Interest expense and agent fees	(34,017)
Total non-operating revenues (expenses)	(23,098)
Income (loss) before contributions	(55,073)
Capital contributions from developers	400,095
Capital contributions from other governments	<u>10,690</u>
Change in net assets	355,712
Net assets at beginning of year	<u>4,412,532</u>
Net assets at end of year	<u>\$ 4,768,244</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND TYPE - ENTERPRISE FUND**

For the Year Ended September 30, 2008

	Enterprise Fund
Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 744,104
Payments to other funds	(5,565)
Payments to suppliers	(415,100)
Payments to employees	(151,148)
Net cash provided by operating activities	<u>172,291</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(62,604)
Bond principal payments	(29,000)
Interest and fiscal charge payments	(33,536)
Net cash provided by (used for) capital and related financing activities	<u>(125,140)</u>
Cash Flows from Investing Activities:	
Proceeds from the sale of investments	142,179
Purchase of investments	(147,514)
Interest received	<u>12,775</u>
Net cash provided by (used for) investing activities	<u>7,440</u>
Net increase in cash and cash equivalents	54,591
Cash and cash equivalents at the beginning of year	<u>453,119</u>
Cash and cash equivalents at the end of the year	<u>\$ 507,710</u>

(continued)

CITY OF RICHWOOD

Richwood, Texas

**STATEMENT OF CASH FLOWS -
PROPRIETARY FUND TYPE - ENTERPRISE FUND - Continued**

For the Year Ended September 30, 2008

	<u>Enterprise Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Operating income (loss)	\$(31,975)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by	
Operating Activities:	
Depreciation	190,171
(Increase) decrease in accounts receivable	2,001
Increase (decrease) in accounts payable	14,076
Increase (decrease) in due to other funds	(5,565)
Increase (decrease) in customer deposits	<u>3,583</u>
Total adjustments	<u>204,266</u>
Net cash provided by operating activities	<u>\$ 172,291</u>
Non-Cash Investing, Capital and Financing Activities:	
Contributions from developers	\$ 400,095
Contributions from other governments	10,690
Assets acquired from contributions	<u>(410,785)</u>
Net effect of non-cash transactions	<u>\$ -0-</u>

The notes to the financial statements are an integral part of this statement.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

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CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The City of Richwood (City) operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, public services (utility facilities), public recreation, public benefits (health and welfare), and general administrative services.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the City are described below.

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The City has no component units. The decision to not include a potential component unit in the reporting entity was made by applying the criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. Based upon the application of these criteria, no entities were considered to be component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among *program revenues are reported* instead as *general revenues*.

CITY OF RICHWOOD
Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-wide and Fund Financial Statements - Continued

Separate financial statements are provided for governmental funds and proprietary funds. The City does not have any fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. As the City only has one non-major governmental fund, the Capital Projects Fund, this fund is reported in a separate column on the governmental funds statements. The City has only one proprietary fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, municipal court revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the government.

The City has presented the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The Debt Service Fund accounts for the accumulation of resources for the annual payment of general long-term debt principal and interest of the governmental funds.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

The City reports the following major proprietary fund:

The Enterprise Fund is used to account for the provision of water, sewer and sanitation services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility and sanitation customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Fund are charges to customers for sales and services. The City also recognized as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system.

Operating expenses for the Enterprise Fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

New Pronouncements

In April of 2004, the GASB issued Statement No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)". This Statement provides uniform financial reporting for OPEB plans and supersedes the interim guidance included in Statement No. 26. As the City does not have an OPEB, this Statement does not have an effect on the financial statements.

In May of 2004, the GASB issued Statement No. 44, "Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1. This statement improves the understandability and usefulness of statistical section information and adds information from the new financial reporting model for state and local governments required by GASB 34. The provisions of this Statement are effective for periods beginning after June 15, 2005. The City does not provide a statistical section within their annual financial report.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Pronouncements - Continued

GASB No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," was issued June 2004. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is effective for periods beginning after December 15, 2008. Management of the City has not determined the impact, if any, upon its financial position, results of operations or its cash flows upon adoption.

GASB No. 46, "Net Assets Restricted by Enabling Legislation: an amendment of GASB Statement No. 34", was issued December 2004. This statement clarifies the meaning of legally enforceable as applied to restrictions on net asset use imposed by enabling legislation. This statement is effective for periods beginning after June 15, 2006. The statement was implemented and did not have a material impact on the City's financial statements.

GASB No. 47, "Accounting for Termination Benefits", was issued April 2005. This statement provides guidance for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, both voluntary and involuntary. This statement is effective for periods beginning after June 15, 2005. The statement was implemented and did not have a material impact on the City's financial statements.

GASB No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra Entity Transfers of Assets and Future Revenues", was issued September 2006. This statement provides guidance for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. This statement is effective for periods beginning after December 15, 2006. The statement was implemented and did not have an impact on the City's financial statements.

GASB No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", was issued November 2006. This statement provides guidance for pollution remediation obligations. This statement is effective for periods beginning after December 15, 2007. The management of City does not believe that the implementation of this statement will have a material effect on the financial statements of the City.

GASB No. 50, "Pension Disclosures", was issued May 2007. This statement provides guidance for financial reporting by pension plans and by employers that provide defined benefit and contribution plans. This statement is effective for periods beginning after June 15, 2007. The statement was implemented and did not have a material effect on the City's financial statements.

GASB No. 51, "Accounting and Financial Reporting for Intangible Assets", was issued June 2007. This statement provides guidance for financial reporting of intangible assets for all state and local governments. This statement is effective for periods beginning after June 15, 2009. The management of City does not believe that the implementation of this statement will have a material effect on the financial statements of the City.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Budgetary Data

All departments of the City submit requests for appropriation to the City Secretary so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to the Mayor and City Council for review. The City Council holds budget workshops and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level. Line item and department budgets may exceed appropriated amounts at the discretion of the City Council as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were made during the year. Appropriations not exercised in the current year lapse at the end of the year.

The City adopts annual budgets for all significant governmental fund types (General Fund and Debt Service Fund) and proprietary fund type (Enterprise Fund).

The City prepares its annual budget on a generally accepted accounting principles basis (GAAP basis). The budget and all transactions are presented in accordance with the City's GAAP basis in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General, Debt Service and Enterprise Fund to provide a meaningful comparison of actual results with the budget.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized. Encumbrances outstanding at year end are reported as a reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. The City's encumbrances amounted to \$ 7,935 at September 30, 2008.

Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and short-term investments with an original maturity date of three months or less. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. Temporary investments are stated at cost. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Inventory

The City uses the purchase method of accounting for inventory. In the purchase method of accounting for inventory, purchases of gasoline and office supplies are recorded as expenditures when acquired. Inventory on hand at the end of the year is recorded as an asset and a reservation of fund balance if significant. Inventory at September 30, 2008 was not significant and therefore, is not recorded.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

Capital assets, which includes land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The amount of interest cost to be capitalized on assets with tax-exempt borrowing is equal to the cost of the borrowing less interest earned on the related tax-exempt borrowing. During the year ended September 30, 2008, no capitalized interest was recorded.

Assets capitalized have an original cost of \$ 5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	31.5-40 Years
Furniture, equipment and vehicles	5-10 Years
Infrastructure:	
Water and sewer System	45 Years
General infrastructure assets	40-45 Years

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the City in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the City is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years. Under certain circumstances taxpayers and taxing units, including the City, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on July 17, 2007, upon which the levy for the 2007-08 fiscal year was based, was \$ 116,437,366. Taxes are delinquent if not paid by January 31. Delinquent taxes are subject to penalty and Interest charges plus 15 % delinquent collection fees for attorney costs.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property Taxes - Continued

The tax rates assessed for the year ended September 30, 2008, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 0.61706 and \$ 0.06402 per \$ 100 valuation, respectively, for a total of \$ 0.68108 per \$ 100 valuation.

Current tax collections for the year ended September 30, 2008 were 98.41% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of September 30, 2008, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 19,276 and \$ 2,081 for the general and debt service funds, respectively.

Pension Plans

It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service costs. In the fiscal year ended September 30, 1999, the City implemented GASB Statement 27, Accounting for Pensions by State and Local Governmental Employers, which standardizes financial reporting for pensions by state and local governmental employers for the Emergency Services Personnel Retirement Fund (the Fund) upon the Fund's adoption of GASB 25. For fiscal year ended September 30, 1998, the City implemented GASB Statement 27 for the Texas Municipal Retirement System (TMRS). At the date of transition and implementation of GASB Statement 27, there was no pension liability or pension asset (see Note 10).

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. The City has not recorded any bond premiums and discounts. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The City has not received any premiums and or discounts on debt issuances.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets represents the differences between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose, a temporary investment is one that when purchased had a maturity date of three months or less. Cash and temporary investments, and investments, as reported on the statement of net assets at September 30, 2008, are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 425	\$	\$ 425
Financial Institution Deposits:			
Demand deposits	349,451	134,203	483,654
Certificates of deposit	158,118	164,086	322,204
Local Government Investment Pool:			
Texpool	<u>347,460</u>	<u>34,964</u>	<u>382,424</u>
	855,454	333,253	1,188,707
Investments:			
Financial Institution Deposits:			
Certificates of deposit	105,358	135,630	240,988
Held by Broker Dealers:			
U.S. Government securities	<u> </u>	<u>137</u>	<u>137</u>
Total	<u>\$ 960,812</u>	<u>\$ 469,020</u>	<u>\$ 1,429,832</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Deposits

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At year end, the carrying amount of the City's deposits was \$ 1,046,846, while the financial institution balances totaled \$ 1,121,550. Of the financial institution balances, \$ 100,000 was covered by federal depository insurance, \$ 352,403 was covered by SIPC coverage, and \$ 669,147 was covered by collateral held by the City's agent in the City's name.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the City Council. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Officer submits an investment report each quarter to the City Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

The City is invested in a certificate of deposit at Brazoswood National Bank to provide its liquidity needs. It has a maturity of less than 365 days. This investment is insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The City participates in one Local Government Investment Pool (LGIPs): Texpool. The State Comptroller oversees Texpool with Lehman Brothers and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller.

The City invests in Texpool to provide its liquidity needs. Texpool is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool is a 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool is AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

At September 30, 2008 Texpool had a weighted average maturity of 80 days. Although Texpool portfolio had a weighted average maturity of 80 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

The following table includes the portfolio balances of all investment types of the City at September 30, 2008.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Investments - Continued

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Weighted Average Maturity (Days)</u>	<u>Investment Balance</u>
Certificate of Deposit	03-25-09	1.06%	22.3	\$ 119,570
Certificate of Deposit	02-03-09	1.47%	16.2	121,418
Certificate of Deposit	11-06-08	1.35%	3.9	100,661
Certificate of Deposit	11-07-08	1.35%	3.5	88,306
Certificate of Deposit	11-14-08	1.06%	1.0	66,906
Certificate of Deposit	11-07-08	1.31%	2.7	66,331
Total Certificates of Deposit			49.6	563,192
Local Government Investment Pool:				
Texpool	N/A	Varies daily	0.4	382,424
U.S. Instrumentality Securities:				
FNMA	05-25-20	7.50%	0.6	137
Total investments			<u>50.6</u>	<u>\$ 945,753</u>

Texpool - The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poors. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poors, as well as the office of the Comptroller of Public Accounts for review.

Credit Risk - As of September 30, 2008, the LGIPs (which represent approximately 40.44% of the unrestricted portfolio) are rated AAAM by Standard and Poor's or AAA by Finch, while the majority of the remainder, 59.56%, is invested in fully secured certificates of deposit.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lessor of a dollar weighted average maturity of 365 days of the anticipated cash flow requirements of the funds. Quality sort-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the District's cash flow requirements.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2008, and holds no direct investments in derivatives at September 30, 2008.

NOTE 3 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Taxes

Ad valorem taxes receivable are reserved based on historical experience and evaluation of collectivity as the lesser of a percentage of the original levy and the current receivable for each levy year. The following is a summary of the allowance for uncollectible taxes by fund:

General Fund	\$	6,578
Debt Service Fund		<u>931</u>
Total	\$	<u>7,509</u>

Municipal Court Receivables

Municipal court receivables are reported in the governmental activities statement of net assets. Since these receivables do not represent current available resources, they are not reported in the governmental funds balance sheet. The allowance for uncollectible receivables related to municipal court assessments is determined based on historical experience and evaluation of collectibility in relation to the aging of customer accounts. The allowance for uncollectible receivables for the year ended September 30, 2008 was \$ 99,463.

NOTE 4 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of September 30, 2008, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 15,215	\$
Delinquent property taxes receivable (debt service fund)	1,642	
Other		<u>12,073</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 16,857</u>	<u>\$ 12,073</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Interfund Receivables and Payables:

Interfund balances at September 30, 2008 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Debt service fund	\$ 377	\$
Enterprise fund	11,954	
Total general fund	12,331	-0-
Debt Service Fund:		
General Fund		377
Total debt service fund	-0-	377
<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
Enterprise Fund:		
General fund	\$	\$ 11,954
Total enterprise fund	-0-	11,954
Totals	\$ 12,331	\$ 12,331

NOTE 6 - PRIOR PERIOD ADJUSTMENTS

In prior year \$ 25,126 accounts receivable, which represents September 2007 sales taxes paid in November 2007, was not reported as of September 30, 2007 in general fund. The amount was adjusted to beginning equity balances as prior period adjustment.

The following is a summary of prior period adjustments, restated to September 30, 2007 net assets, for governmental activities:

	<u>Governmental Activities</u>
Net Assets - September 30, 2007 (Previously reported)	\$ 1,909,101
Understatement of accounts receivable	25,126
Net Assets - September 30, 2007 (Restated)	\$ 1,934,227

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 6 - PRIOR PERIOD ADJUSTMENTS - Continued

The following is a summary of prior period adjustments, restated to September 30, 2007 fund balances, for general and total governmental funds:

	<u>General Fund</u>	<u>Governmental Funds</u>
Fund Balances - September 30, 2007 (Previously reported)	\$ 814,742	\$ 842,168
Understatement of accounts receivable	<u>25,126</u>	<u>25,126</u>
Fund Balances - September 30, 2007 (Restated)	\$ <u>839,868</u>	\$ <u>867,294</u>

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, was as follows:

	<u>Balance 10/01/07</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 09/30/08</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ <u>266,940</u>	\$ <u> </u>	\$ <u> </u>	\$ <u>266,940</u>
Total capital assets, not being depreciated	<u>266,940</u>	<u>-0-</u>	<u>-0-</u>	<u>266,940</u>
Capital Assets, Being Depreciated:				
Buildings	396,639			396,639
Equipment	846,417	144,052	19,282	971,187
Infrastructure	<u>3,063,078</u>	<u>970,678</u>	<u> </u>	<u>4,033,756</u>
Total capital assets, being depreciated	<u>4,306,134</u>	<u>1,114,730</u>	<u>19,282</u>	<u>5,401,582</u>
Less Accumulated Depreciation For:				
Buildings	235,388	13,975		249,363
Equipment	611,165	79,169	19,282	671,052
Infrastructure	<u>1,839,919</u>	<u>98,487</u>	<u> </u>	<u>1,938,406</u>
Total accumulated depreciation	<u>2,686,472</u>	<u>191,631</u>	<u>19,282</u>	<u>2,858,821</u>
Total capital assets, being depreciated, net	<u>1,619,662</u>	<u>923,099</u>	<u>-0-</u>	<u>2,542,761</u>
Governmental activities capital assets, net	\$ <u>1,886,602</u>	\$ <u>923,099</u>	\$ <u>-0-</u>	\$ <u>2,809,701</u>

CITY OF RICHWOOD
Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended September 30, 2008

NOTE 7 - CAPITAL ASSETS - Continued

Business-type Activities:

Capital Assets, Not Being Depreciated:

Land	\$ 122,580	\$	\$	\$ 122,580
Construction in progress	<u>-0-</u>	<u> </u>	<u> </u>	<u>-0-</u>
Total capital assets, not being depreciated	<u>122,580</u>	<u>-0-</u>	<u>-0-</u>	<u>122,580</u>

Capital Assets, Being Depreciated:

Buildings	189,000			189,000
Equipment	193,725	17,939		211,664
Infrastructure	<u>6,906,255</u>	<u>444,760</u>		<u>7,351,015</u>
Total capital assets, being depreciated	<u>7,288,980</u>	<u>462,699</u>	<u>-0-</u>	<u>7,751,679</u>

Less Accumulated Depreciation For:

Buildings	120,225	3,275		123,500
Equipment	156,737	14,883		171,620
Infrastructure	<u>2,629,963</u>	<u>172,013</u>		<u>2,801,976</u>
Total accumulated depreciation	<u>2,906,925</u>	<u>190,171</u>	<u>-0-</u>	<u>3,097,096</u>

Total capital assets, being depreciated, net	<u>4,382,055</u>	<u>272,528</u>	<u>-0-</u>	<u>4,654,583</u>
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Business-type activities capital assets, net	<u>\$ 4,504,635</u>	<u>\$ 272,528</u>	<u>\$ -0-</u>	<u>\$ 4,777,163</u>
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Depreciation expense was charged to functions/programs of the City as follows:

Governmental Activities:

General administration	\$ 8,023
City maintenance	10,135
Streets and drainage	98,487
Police department	29,753
Fire department	19,746
Parks and recreation	<u>25,487</u>
Total depreciation expense-governmental activities	<u>\$ 191,631</u>

Business-type Activities:

Water and sewer	<u>\$ 190,171</u>
Total depreciation expense-business-type activities	<u>\$ 190,171</u>

Contributed Capital

During the year ended September 30, 2008 the City received contributed capital in the amount of \$ 1,287,774, in which \$ 1,277,084 was from Audubon Development and Raymond Burroughs, and \$ 10,690 was from other governments. Of the total amount, \$ 876,989 is reported within governmental activities and \$ 410,785 is reported within the business-type activities as water system improvements.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE 8 - LONG-TERM DEBT

General Obligation Bonds\Certificates of Obligation

In November 1999, the City issued City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 1999 in the amount of \$ 1,035,000 for approved capital construction.

General obligation bonds and certificates of obligation payable for governmental activities at September 30, 2008, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/08
		Issued	Maturity	Callable	
Certificates of Obligation:					
Combination Tax and Revenue, Series 1999	5.20- 7.75%	1999	2024	2009	\$ 815,000
Total					\$ 815,000

General obligation bond transactions for the year ended September 30, 2008 were as follows:

Bonds outstanding, October 1, 2007	\$ 845,000
Maturities	(30,000)
Bonds outstanding, September 30, 2008	\$ 815,000

The following is a summary of general obligation bond requirements for governmental activities by year as of September 30, 2008:

Year Ending September 30,	Principal	Interest	Total Requirements
2009	\$ 30,000	\$ 45,633	\$ 75,633
2010	35,000	43,983	78,983
2011	35,000	42,163	77,163
2012	40,000	40,325	80,325
2013	40,000	38,185	78,185
2014-2018	240,000	155,300	395,300
2019-2023	320,000	78,981	398,981
2024	75,000	4,313	79,313
Total	\$ 815,000	\$ 448,883	\$ 1,263,883

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE 8 - LONG-TERM DEBT - Continued

Revenue Bonds/Certificates of Obligation

In July 2004, the City issued \$ 500,000 of City of Richwood, Texas Combination Tax and Revenue Certificates of Obligation, Series 2004 to finance improvements to the existing wastewater system (the "Project"). Interest rates on these bonds range from 2.75% to 5.70%. These certificates of obligation were purchased by the Texas Water Development Board. \$ 467,500 of the proceeds were being held in escrow with a financial institution pending approval by the Texas Water Development Board of contracts and other documentation for this Project. During the year ended September 30, 2005 these funds were transferred to the City.

Revenue bonds/certificates of obligation payable for business-type activities at September 30, 2008, are summarized as follows:

	Interest Rates %	Series Dates			Bonds Outstanding 09/30/08
		Issued	Maturity	Callable	
Revenue Bonds Series 1980	5.00	1980	2019	1990	\$ 179,000
Combination Tax and Revenue Certificates of Obligation- Series 2004	2.75- 5.70	2004	2025	N/A	<u>455,000</u>
Total					<u>\$ 634,000</u>

Revenue bond/certificates of obligation transactions for the year ended September 30, 2008 were as follows:

Bonds outstanding, October 1, 2007	\$ 663,000
Maturities	(29,000)
Bonds outstanding, September 30, 2008	<u>\$ 634,000</u>

The following is a summary of revenue bond/certificates of obligation requirements for business-type activities by year as of September 30, 2008:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2009	\$ 34,000	\$ 31,403	\$ 65,403
2010	34,000	29,923	63,923
2011	35,000	28,363	63,363
2012	36,000	26,718	62,718
2013	37,000	24,998	61,998
2014-2018	215,000	95,171	310,171
2019-2023	168,000	44,414	212,414
2024-2025	<u>75,000</u>	<u>4,409</u>	<u>79,409</u>
Total	<u>\$ 634,000</u>	<u>\$ 285,399</u>	<u>\$ 919,399</u>

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE 8 - LONG-TERM DEBT - Continued

Revenue Bonds/Certificates of Obligation - Continued

Transactions for the year ended September 30, 2008 are summarized as follows:

	<u>Balance 10/01/07</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 09/30/08</u>	<u>Due Within One Year</u>
Governmental Type Activities:					
Certificates of obligation	\$ 845,000	\$	\$ 30,000	\$ 815,000	\$ 30,000
Component of Bonded Debt:					
Accrued interest payable	<u>2,102</u>	<u>2,000</u>	<u>2,102</u>	<u>2,000</u>	<u>2,000</u>
Total governmental activities	<u>847,102</u>	<u>2,000</u>	<u>32,102</u>	<u>817,000</u>	<u>32,000</u>
Business Type Activities:					
Certificates of obligation	470,000		15,000	455,000	20,000
Revenue bonds	193,000		14,000	179,000	14,000
Component of Bonded Debt:					
Accrued interest payable	<u>8,254</u>	<u>7,708</u>	<u>8,254</u>	<u>7,708</u>	<u>7,708</u>
Total business type activities	671,254	7,708	37,254	641,708	41,708
Less Portion Payable from Restricted Assets:					
Certificate of obligation	15,000			20,000	20,000
Revenue bonds payable	14,000			14,000	14,000
Accrued interest payable	<u>8,254</u>	<u>7,708</u>	<u>8,254</u>	<u>7,708</u>	<u>7,708</u>
Net business-type activities	<u>634,000</u>	<u>-0-</u>	<u>29,000</u>	<u>600,000</u>	<u>0</u>
Total government (net)	<u>\$ 1,481,102</u>	<u>\$ 2,000</u>	<u>\$ 61,102</u>	<u>\$ 1,147,000</u>	<u>\$ 32,000</u>

NOTE 9 - LEASES

Capital Leases

The City has no capital leases as of September 30, 2008.

Operating Leases

In February 2008, the City entered into a copier lease that will expire in February 2013. This lease is considered for accounting purposes to be an operating lease. The lease is on a month-to-month basis. Lease expenditures for the year ended September 30, 2008 were \$ 3,678.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 10 - JOINT OPERATIONS

The City is party to an agreement with the City of Clute to share costs associated with the operation of a sewer treatment plant. The percentage for sharing the operating expenses (excluding maintenance and capital outlay) is determined based upon the metered flow of wastewater for each City. For the year ended September 30, 2008, the City of Richwood's portion of these expenses was determined to be 15.88 percent, which amounted to \$ 136,748. Further, the City of Richwood shares in 25 percent of maintenance costs (including capital acquisitions) which amounted to \$ 17,333 for the year ended September 30, 2008. The City of Clute maintains both budgetary and accounting responsibility over these operations.

NOTE 11 - PENSION PLAN

Plan Description

The City provides pension benefits for all of its full-time employees except volunteer firefighters, through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

Members can retire at ages 60 and above with 5 or more years of service or with 25 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for the employees is 5%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2008

NOTE 11 - PENSION PLAN - Continued**Contributions - Continued**

percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 30-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 30-year period. The remaining open amortization period is 30 years. The projected unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2007 valuation is effective for rates beginning January 2009).

The last actuarial valuation was conducted on December 31, 2007. Significant actuarial assumptions used include (a) a level percent of payroll amortization method, (b) projected salary increases varies by age and services, (c) a 3.0% inflation adjustment, (d) 2.1% (3.0% cpi) cost of living adjustment, (e) an amortized cost asset valuation method, and (f) a rate of return on the investments of 7.00 percent per year.

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following:

Texas Municipal Retirement System
PO Box 149153
Austin, TX 78714-9153
(877) 634-8595

Funding Status and Progress**Schedule of Actuarial Liabilities and Funding Progress**

Actuarial Valuation Date		12/31/07
Actuarial Value of Assets	\$	1,158,207
Actuarial Accrued Liability	\$	1,634,763
Percentage Funded		70.8%
Unfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$	476,556
Annual Covered Payroll	\$	605,645
UAAL as a Percentage of Covered Payroll		78.7%
Net Pension Obligation (NPO) at the Beginning of Period	\$	-0-
Annual Pension Cost:		
Annual required contribution (ARC)	\$	54,716
Interest on NPO		-0-
Adjustment to the ARC		-0-
Contribution Made	\$	54,716
Increase in NPO		-0-
NPO at the end of the period	\$	-0-

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE 11 - PENSION PLAN - Continued

Funding Status and Progress - Continued

The schedule of actuarial liabilities and funding progress for the years ended December 31, 1996 to 2007, are as follows:

<u>Year</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Percentage Funded</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>
1996	\$ 269,425	\$ 334,919	80.15%	\$ 65,494
1997	298,415	463,487	64.38%	165,072
1998	362,464	518,851	69.90%	156,387
1999	432,099	583,288	74.10%	151,189
2000	530,035	686,590	77.20%	156,555
2001	631,637	795,399	79.40%	163,762
2002	745,314	916,130	81.40%	170,816
2003	865,638	1,084,598	79.80%	218,960
2004	912,094	1,133,515	80.50%	221,421
2005	1,035,659	1,252,972	82.70%	217,313
2006	1,173,256	1,399,873	83.81%	226,617
2007	1,158,207	1,634,763	70.80%	476,556

<u>Year</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>	<u>Annual Required Contribution (ARC)</u>	<u>ARC as s Percentage of Covered Payroll</u>
1996	\$ 348,761	19.07%	\$ 14,787	4.24%
1997	402,806	40.98%	27,452	6.82%
1998	367,467	42.40%	32,969	8.95%
1999	372,237	40.60%	36,606	9.83%
2000	361,757	43.30%	39,128	10.82%
2001	381,293	43.00%	40,638	10.66%
2002	414,535	41.20%	41,073	9.91%
2003	409,431	53.50%	42,571	9.69%
2004	509,952	43.40%	53,915	10.73%
2005	526,152	41.30%	53,677	10.20%
2006	549,852	41.21%	52,080	9.50%
2007	605,645	78.70%	54,716	9.03%

The pension liability at transition was determined in accordance with the provisions of GASB Statement No. 27 and was zero. Amounts provided prior to adoption of GASB Statement No. 27 are amounts provided under GASB Statement No. 5.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE 12 - RISK POOL PARTICIPATION

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property, worker's compensation, and medical insurance. The City pays annual premiums to the pool for the coverages stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Property and liability insurance provide varying and appropriate coverage, with most claims subject to a \$ 5,000 deductible. Workers compensation claims are managed by the Texas Municipal League. In addition, the City has designated a portion of the General Fund balance for insurance contingencies, to handle deductibles and other associated costs. For medical insurance claims, the City pays insurance premiums for full coverage and has no liability for claims filed by employees or their covered dependents.

NOTE 13 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended September 30, 2008, the City incurred expenditures in excess of appropriation within the following funds:

General Fund	\$ 52,147
Debt Service Fund	719

These variances resulted from Hurricane Ike and underestimation of year-end accruals as of September 30, 2008.

NOTE 14 - LITIGATION AND CONTINGENCIES

There is currently threatened or likely litigation involving interpretation of a sewage agreement with the City of Clute, Texas. The matter will likely be submitted to arbitration for resolution.

The nature of the dispute involves the interpretation of a sewage agreement/contract between the Cities of Richwood and Clute, which specifies the allocation of financial and ownership responsibilities for a shared sewage treatment plant and the respective cities' collection systems that feed into said sewage treatment plant. More specifically and in summation, the dispute concerns who is financially responsible for the costs to repair Clute's collection system, which financial cost totals in excess of \$ 1,500,000.

Currently, the City has had conferences with the City Attorney to discuss the likelihood of arbitration and governing law; and has met with the City Attorney for Clute. Unfortunately, it appears that reaching an amicable resolution without necessity of contested arbitration is unlikely and consequently arbitration appears inevitable.

Because of the meritorious strength of the City of Richwood's position, it will adamantly defend it's position in arbitration.

Clute's demand is that the City pays 100% of the costs; alternatively the City pays 75% of costs based on quantity of sewage from each City which travels through this part of the system.

CITY OF RICHWOOD

Richwood, Texas

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended September 30, 2008

NOTE 14 - LITIGATION AND CONTINGENCIES - Continued

There is a strong likelihood that the City of Richwood will receive a favorable outcome. This is based on the fact that the City of Richwood's position is supported by the language of the contract and fundamental contract law; in stark contrast, the City of Clute's position is based on a unilateral plea to the arbitrator to reform the contract, which has been in existence for almost twenty (20) years. Nonetheless, a successful outcome cannot be guaranteed as there are numerous unknown variables that may be raised by the City of Clute or the arbitrator(s). In addition, it is possible that the arbitrator(s) may find validity to the City of Clute's position.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF RICHWOOD

Richwood, Texas

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended September 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Property taxes	\$ 764,026	\$ 764,026	\$ 766,139	\$ 2,113
Sales taxes	265,000	265,000	278,613	13,613
Franchise fees	155,000	155,000	142,310	(12,690)
Revenue producing facilities	18,000	18,000	12,781	(5,219)
Fines and fees	81,000	81,000	73,976	(7,024)
Licenses and permits	37,000	37,000	52,437	15,437
Investment income	37,000	37,000	20,903	(16,097)
Intergovernmental		10,000	184,468	174,468
Miscellaneous	<u>34,650</u>	<u>90,304</u>	<u>26,214</u>	<u>(64,090)</u>
Total revenues	<u>1,391,676</u>	<u>1,457,330</u>	<u>1,557,841</u>	<u>100,511</u>
Expenditures:				
Current:				
General administration	292,697	237,043	218,421	18,622
Judicial	15,100	15,100	10,217	4,883
Police department	621,919	677,573	630,227	47,346
Fire department	80,450	80,450	76,629	3,821
City maintenance	204,649	204,149	206,637	(2,488)
Streets and drainage	10,000	18,000	9,793	8,207
Parks and recreation	42,675	43,175	46,441	(3,266)
Hurricane Ike			122,567	(122,567)
Capital outlay	<u>128,186</u>	<u>130,186</u>	<u>136,891</u>	<u>(6,705)</u>
Total expenditures	<u>1,395,676</u>	<u>1,405,676</u>	<u>1,457,823</u>	<u>(52,147)</u>
Net changes in fund balances	(4,000)	51,654	100,018	48,364
Fund balances, beginning	<u>839,868</u>	<u>839,868</u>	<u>839,868</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 835,868</u>	<u>\$ 891,522</u>	<u>\$ 939,886</u>	<u>\$ 48,364</u>

CITY OF RICHWOOD

Richwood, Texas

TEXAS MUNICIPAL RETIREMENT SYSTEM SCHEDULE OF FUNDING PROGRESS LAST THREE FISCAL YEARS

Actuarial Valuation Date	Actuarial Value of Assets** (a)	Actuarial Accrued Liability* (AAL)- (b)	Unfunded. AAL (UAAL) (b-a)	Percentage Funded (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
2005	\$ 1,035,659	\$ 1,252,972	\$ 217,313	82.70%	\$ 526,152	41.30%
2006	1,173,256	1,399,873	226,617	88.30%	549,852	41.21%
2007	1,158,207	1,634,763	476,556	70.80%	605,645	78.70%

* As of December 31 of the preceding year, the date of the actuarial valuation.

** Assets are stated at cost as of December 31 of the preceding year.

INDIVIDUAL FUND SCHEDULES

CITY OF RICHWOOD

Richwood, Texas

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - DEBT SERVICE FUND

For the Year Ended September 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 78,458	\$ 78,458	\$ 79,741	\$ 1,283
Interest			631	631
Total revenues	<u>78,458</u>	<u>78,458</u>	<u>80,372</u>	<u>1,914</u>
Expenditures:				
Supplies	500	500		500
Debt Service:				
Principal	30,000	85,654	85,654	-0-
Interest and fiscal charges	<u>47,958</u>	<u>47,958</u>	<u>49,177</u>	<u>(1,219)</u>
Total expenditures	<u>78,458</u>	<u>134,112</u>	<u>134,831</u>	<u>(719)</u>
Excess of revenues over (under) expenditures	-0-	(55,654)	(54,459)	1,195
Other financing sources (uses)		<u>55,654</u>	<u>55,654</u>	<u>-0-</u>
Net change in fund balances	-0-	-0-	1,195	1,195
Fund balances, beginning	<u>21,266</u>	<u>21,266</u>	<u>21,266</u>	<u>-0-</u>
Fund balances, ending	<u>\$ 21,266</u>	<u>\$ 21,266</u>	<u>\$ 22,461</u>	<u>\$ 1,195</u>

CITY OF RICHWOOD

Richwood, Texas

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL - PROPRIETARY FUND TYPE - ENTERPRISE FUND

For the Year Ended September 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Water fees	\$ 385,368	\$ 385,368	\$ 365,520	\$(19,848)
Sewer fees	345,368	345,368	323,349	(22,019)
Garbage fees	8,000	8,000	9,322	1,322
Delinquent charges	30,000	30,000	20,460	(9,540)
Tap and reconnect fees	14,000	14,000	14,675	675
Miscellaneous	<u>2,000</u>	<u>2,000</u>	<u>5,194</u>	<u>3,194</u>
Total revenues	<u>784,736</u>	<u>784,736</u>	<u>738,520</u>	<u>(46,216)</u>
Operating Expenses:				
Personnel costs	192,175	192,175	151,148	41,027
Sewer treatment plant operations	199,195	176,195	154,081	22,114
Water costs – BWA	132,000	132,000	135,896	(3,896)
Utilities and telephone	33,250	33,250	47,110	(13,860)
Repairs and maintenance	39,105	39,105	46,544	(7,439)
Supplies	19,000	42,000	30,368	11,632
Miscellaneous	<u>12,050</u>	<u>12,050</u>	<u>15,177</u>	<u>(3,127)</u>
Operating expenses before depreciation	626,775	626,775	580,324	46,451
Depreciation	<u>166,022</u>	<u>166,022</u>	<u>190,171</u>	<u>(24,149)</u>
Total operating expenses	<u>792,797</u>	<u>792,797</u>	<u>770,495</u>	<u>22,302</u>
Operating income (loss)	<u>(8,061)</u>	<u>(8,061)</u>	<u>(31,975)</u>	<u>(23,914)</u>
Non-Operating Revenues (Expenses):				
Investment income	27,000	27,000	10,919	(16,081)
Interest expense and agent fees	<u>(60,736)</u>	<u>(60,736)</u>	<u>(34,017)</u>	<u>26,719</u>
Total non-operating revenues (expenses)	<u>(33,736)</u>	<u>(33,736)</u>	<u>(23,098)</u>	<u>10,638</u>
Income (loss) before contributions and operating transfers	<u>(41,797)</u>	<u>(41,797)</u>	<u>(55,073)</u>	<u>(13,276)</u>
Capital contributions	30,000	30,000	400,095	370,095
Capital contributions from other governments	<u> </u>	<u> </u>	<u>10,690</u>	<u>10,690</u>
Change in net assets	<u>(11,797)</u>	<u>(11,797)</u>	<u>355,712</u>	<u>367,509</u>
Net assets, beginning	<u>4,412,532</u>	<u>4,412,532</u>	<u>4,412,532</u>	<u>-0-</u>
Net assets, ending	<u>\$ 4,400,735</u>	<u>\$ 4,400,735</u>	<u>\$ 4,768,244</u>	<u>\$ 367,509</u>